

Fundamentals of Financial Services 1A (June Examination) – FFS11A



UNIVERSITY
OF
JOHANNESBURG

Department of Commercial Accounting

FUNDAMENTALS OF FINANCIAL SERVICES 1A

FFS11A1

Final Assessment Opportunity

June Examination 2016

Time: 2 hours

Marks: 70

Examiner: Oliver Takawira

Moderator: Yusuf Patel (Internal)

INSTRUCTIONS:

- This paper consists of 7 pages (including the cover page).
- Start each question on a new page.
- You are allowed to use a calculator where necessary

Question	Topic	Marks	Time
1	Multiple choice	30	40 Minutes
2	Introduction, Saving and Borrowing	10	20 minutes
3	Banking	10	20 minutes
4	Equities & Bonds	10	20 minutes
5	Markets & Other Areas of Fin Services	10	20 minutes
		70	120 minutes

QUESTION 1 - (30 marks)

Please answer at the back of the workbook

- 1.1 You are starting out a new business. You are developing a new type of cell phone application that allows university students to purchase food online with a 15 minute delivery time anywhere on campus. You require R100 000 capital upfront to start up the business. Which potential sources of finance do you have?
- a. Insurance
 - b. Equity
 - c. Borrowing
 - d. B and C
- 1.2 To manage risk of theft you would get:
- a. Insurance
 - b. Bonds
 - c. Equities
 - d. None of the above
- 1.3 The term for insurance taken out by an insurer on a policy that it has underwritten.
- a. Reinsurance
 - b. Mortgage insurance
 - c. Foreign exchange
 - d. Life insurance
- 1.4 Thabo is a young male who rides a Yamaha R1 motor bike. Maria is 45 year old female driving a Toyota Yaris. Who is the greater risk to the insurance provider?
- a. Thabo
 - b. Maria
 - c. None of above
 - d. Both are equal
- 1.5 Which is the most risky
- a. Government bonds
 - b. Equities issued by a large, well established company
 - c. Poker games
 - d. Bank loans
- 1.6 How does a government typically raise money to fund its national debt?
- a. Issuing bonds to individuals and firms
 - b. Making an appeal for donations from wealthy citizens
 - c. Issuing equities on a stock exchange
 - d. Doubling taxes for large corporations

- 1.7 A company paid dividends of 3.60 per share in each of the last four quarters. The share price is currently 198.50. What is the dividend yield?
- a. 0.02%
 - b. 0.07%
 - c. 1.81%
 - d. 7.25%
- 1.8 If a credit card company quotes its interest rate as 20% pa, charged half-yearly, what is the effective annual rate?
- a. 20%
 - b. 21%
 - c. 22%
 - d. 23%
- 1.9 Advising companies on mergers and acquisitions is one of the principal activities of:
- a. A corporate bank
 - b. A central bank
 - c. An investment bank
 - d. A retail bank
- 1.10 Which of the following has the right to vote at company meetings or assemblies?
- a. The holder of equities in the company
 - b. The co-signatory of a contract of business with the company
 - c. The largest clients of the company
 - d. The holder of bonds issued by the company
- 1.11 You are starting out a new business. You are developing a new type of cell phone application that allows university students to purchase food online with a 15 minute delivery time anywhere on campus. You require R100 000 capital upfront to start up the business. From your potential sources of finance which is more expensive:
- a. Insurance
 - b. Equity
 - c. Borrowing
 - d. None of the above
- 1.12 Typically bank loans, bond and equity is available as a financing option for lenders. Which of these is likely to provide the greatest upside potential for the finance provider?
- a. Bank loans
 - b. Equity
 - c. Borrowing
 - d. All of the above

- 1.13 Risk and reward have a _____ type of relationship
- a. Inverse
 - b. proportional
 - c. Non linear
 - d. None of the above
- 1.14 Shares are traded on:
- a. Bank exchanges
 - b. Stock exchanges
 - c. Bond exchanges
 - d. EBay
- 1.15 A high net worth individual is more likely to be a:
- a. Borrower
 - b. Saver
 - c. Insurer
 - d. None of the above
- 1.16 Which of these has a fixed repayment date
- a. Equities
 - b. Bonds
 - c. Insurance
 - d. All of the above
- 1.17 Which is the most risky
- a. Government bonds
 - b. Equities issued by a large, well established company
 - c. Poker games
 - d. Bank loans
- 1.18 Honesty and fairness relate to the general _____ of decision makers.
- a. unethicalness
 - b. trustworthiness
 - c. ethicalness
 - d. moral attributes
- 1.19 Which of the following investments is likely to be the most risky?
- a. Bonds issued by a start-up company
 - b. Equities issued by a start-up company
 - c. Equities issued by a large oil company
 - d. Government bonds
- 1.20 How does a government typically raise money to fund its national debt?
- a. Issuing bonds to individuals and firms
 - b. Making an appeal for donations from wealthy citizens
 - c. Issuing equities on a stock exchange
 - d. Doubling taxes for large corporations

- 1.21 You wish to invest money in some bonds. You wish to take as high a risk as possible in order to maximise your return. However, you do not want to buy bonds that are classified as 'non-investment grade'. According to the credit ratings given by major agencies Standard & Poor's and Fitch Ratings, which class of bonds should you buy?
- BB
 - C
 - B
 - BBB
- 1.22 Which of the following products have the highest interest rates
- Overdraft
 - Mortgage bond
 - Vehicle finance
 - Payday Loan
- 1.23 Which of the following is not a function of a central bank
- Banker to public
 - Banker for the government
 - Banker to the banks
 - Regulatory role
- 1.24 If interest rates in South Africa decrease, what would the effect on the government bond be
- Coupon will rise
 - Coupon will fall
 - Price will rise
 - Price will fall
- 1.25 The nominal value of a bond is R10 000, the coupon rate is 6%, and the value is R8500. Calculate the bond yield
- 7.06%
 - 6%
 - 12%
 - R600
- 1.26 Which bond is the riskiest
- A+
 - Bb-
 - B+
 - C
- 1.27 BHP Billiton sales have suffered due to a decline in the demand for its products. What would happen to the price of its 9% coupon paying bonds
- Increase
 - Stay the same
 - Decrease
 - All of the above

1.28 Risk and return have a

- a. Proportionate relationship
- b. Inverse relationship
- c. No relationship
- d. All of the above

1.29 Risk free rate is a characteristic of

- a. Government bonds
- b. Corporate bonds
- c. Equities
- d. None of the above

1.30 A mortgage bond is primarily used to purchase what type of asset

- a. A holiday
- b. A house
- c. A vehicle
- d. A boat

QUESTION 2 - (10 marks)

2.1 Define the following terms

- 2.1.1 Savers (2)
- 2.1.2 Equity (2)
- 2.1.3 Bonds (2)
- 2.1.4 Foreign exchange (2)

2.2 Explain how banks make profit? (2)

QUESTION 3 - (10 marks)

- 3.1 If the quoted rate is 11% payable quarterly, calculate what is the Effective Annual Rate? (3)
- 3.2 Distinguish between retail and investment banks. (2)
- 3.3 List three (3) functions of the central bank (3)
- 3.4 Explain the meaning of national debt (2)

QUESTION 4 - (10 marks)

4.1 Define the following terms

- 4.1.1 Mortgage Bonds (2)
- 4.1.2 Yield to maturity (2)
- 4.1.3 Face value (2)
- 4.1.4 Credit Risk (2)

4.2 Distinguish between coupon and dividend. (2)

QUESTION 5 - (10 marks)

- 5.1 Give two (2) benefits of Funds in collective investments. (2)
- 5.2 Distinguish between direct and indirect investment. (2)
- 5.3 List two (2) functions of the stock exchange. (2)
- 5.4 Describe what credit rating agencies do. (2)
- 5.5 Explain what you understand by Retirement planning (2)